

IBM Finans Norge AS

**IFRS Financial Statements and Independent Auditor's
Report**

31 December 2019

IBM Finans Norge AS

Financial Statements

As at 31 December 2019

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IBM Finans Norge AS

Directors' report

For the Year Ended 31 December 2019

The Nature and Location of the Operations

IBM Finans Norge AS was established October 27, 2009 and is a fully owned subsidiary of IBM Global Financing Investments II B.V. located in Netherland. The company is located in Oslo, Norway. IBM Finans Norge AS' objective is to finance invoices (factoring) and inventory for IBM and IBM Business Partners and from Nov 1, 2016 also to finance IT solutions to end users (not private persons) with lease and loans for IBM products and services.

A major change in the business model took place in 2019. From Q2 Lenovo took over the factoring of Lenovo products. The transaction was approved by Finanstilsynet March 20, 2019.

IBM decided to stop enduser financing of 3rd party products and services from April 1. From August the DELL/EMC factoring model also changed, as Citibank took over the credit risk for this supplier. The effect of these changes was a significant reduction in credit exposure and factoring revenue, but this has been compensated by the client financing area. This new model is expected to be stable for the coming years.

The nature of the business requires concession from The Financial Supervisory Authority of Norway (no: Finanstilsynet). All necessary concessions from authorities are in place.

The general requirements for finance companies apply. The requirements with high impact are requirements for capital coverage, mandatory detailed reporting to authorities and publication of quarterly accounts.

The company has 5 employees at YE 2019.

All infrastructure support is in the IBM CoE Budapest and Bratislava including credit and accounting.

Working Environment

The working environment is good and no occupational accidents have occurred in 2019.

The work force consists of 1 female employee and 4 full time male employees. In addition a female controller is insured from IBM on part time.

The total sick leave in 2019 was less than 1.0%.

Diversity and Equality

The company practices an equal opportunity policy. There is currently a good balance of female/male employees in the company, and the company is in compliance with all gender equality requirements.

External Environment

IBM Finans Norge AS does not cause any harm to the environment or health as most of our processes are digitized.

2019 results and future prospects

The Financial Statement for 2019 covers the total calendar year of 2019.

IBM Finans Norge AS had a total credit engagement YE 2019 of MNOK 558 a significant reduction from 2018 mainly due to the changes in factoring strategy. However we maintained most revenue for 3 quarters, with the reduction starting from September. We also compensated slightly with growth in 2nd half within client financing, so revenue is maintained on same level as 2018.

Equity was MNOK 116 which is well within the requirements from the authorities.

IBM Finans Norge AS

Directors' report

For the Year Ended 31 December 2019

The company experienced a normal profitable year. We depended heavily on HW and SW contracts from IBM and some OEM for 2019.

Late in 2019, news first emerged from China about the COVID-19 (Coronavirus). A limited number of cases of illness was reported to World Health Organisation by year end 2019, but subsequently the situation has evolved dramatically and has turned into a Global epidemic. The impact on the IBM Global Financing business is at this stage too early to conclude upon, but it is considered to be a non-adjusting post balance sheet event. A full impact assessment on future financial position and result of operation as a consequence of the COVID-19 virus outbreak will depend on the future development, but may have a negative impact going forward.

As we have 90% credit insurance coverage for factoring clients and a significant proportion of public clients in our client portfolio, we only see credit risk on a limited part of our portfolio.

Financial Risk

The company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in liquidity and interest rate risk, credit risk, market prices, and foreign exchange risk. The company has a strong risk management program in place aligned to the programs applied within the consolidated group of the company's ultimate parent company, International Business Machines Corporation.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company carries out credit checks on potential customers before contracts are entered into.

The credit risk for our factoring business is significantly reduced as 90% of the portfolio is covered by credit insurance and parent guaranties. The remaining client financing business has a low risk profile based on the strict credit evaluation process.

The company is funded by the IBM Treasury Centre in Ireland and IBM Global Financing Investments II B.V. As the company invests or borrows cash balances, it operates in either a receivable or payable position. Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

IBM's corporate treasury function provides funding and risk management services to the company. Risk management services are provided through the monitoring and management of financial risks relating to the operations of the company through internal risk reports addressing credit risk, liquidity risk and cash flow interest rate risk.

The company's financial risk is low. Historically there have been minimal losses in Norway and the company funding is done 100% from IBM GF International Treasury Company Designated Activity Company (IBM IGF TC), Ireland.

The capital for the company is well above the minimum requirements. IBM Finans Norge AS does not give guarantees. The majority of the loans are covered by a credit insurance. During 2019 there has been minimal losses and we expect this to continue in 2020.

IBM Finans Norge AS

Directors' report

For the Year Ended 31 December 2019

Cash Flow Analysis

The net cash flow of operational activities for the company was MNOK 462, MNOK 2 for investment activities and for financing activities MNOK (465)

Continued Operations

The Board has no knowledge of issues of importance to the annual accounts that do not appear in the annual accounts or the Report from the Board of Directors. The accounts have been prepared under the going concern assumption.

The Board proposes the following allocation of the result this year:

Transfer to other equity	MNOK 4,734
Total allocation	MNOK 4,734

Oslo, March 30. 2020

Board of Directors of IBM Finans Norge AS

Emil Stampe
(Member of the board)

Asbjørn Søgstad
(CEO)

Mats Eliasson
(Member of the board)

Trond Erik Steine
(Member of the board)

Søren Gert Christiansen
(Chairman of the board)

Henrik Visser
(Member of the board)

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IBM Finans Norge AS
Independent Auditors' Report
For the Year Ended 31 December 2019

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Independent Auditors' Report
For the Year Ended 31 December 2019

IBM Finans Norge AS

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Notes	2019 NOK'000	2018 NOK'000
Finance income	3	43,949	45,874
Interest income calculated using the effective interest method	3	782	1,037
Finance cost	4	(21,565)	(24,086)
Net finance income		23,166	22,825
Other expense	5	(16,830)	(16,968)
Net impairment losses on financial assets	14	(173)	1,298
Profit before income tax		6,163	7,155
Income tax expense	6	(1,276)	(1,664)
Profit for the year		4,887	5,491
Other comprehensive income / (loss)			
<i>Items that will not be reclassified subsequently to profit and loss:</i>			
Actuarial gain / (loss) on defined benefit scheme	17	(197)	74
Deferred tax in respect of defined benefit scheme	8	44	29
Other comprehensive income / (loss) for the year, net of income tax		(153)	103
Total comprehensive income / (loss) for the year		4,734	5,594

OEM commercial financing activities were divested by the company in financial year 2019. Gain from this operation 1,3M NOK is recognized in total amount of Other expenses (16,830K NOK). All other operations are classified as continuing.

The notes on pages 12 to 50 form part of these financial statements.

IBM Finans Norge AS

Statement of Financial Position

As at 31 December 2019

	Notes	31/12/2019 NOK'000	31/12/2018 NOK'000
Current assets			
Cash and cash equivalents	14	444	1,039
Receivables from related parties	15	15,807	22,551
Finance receivables	7	374,617	814,071
Inventories		-	42
Prepayments and Other current assets		98	2,272
		390,966	839,975
Non-current assets			
Receivables from related parties	15	29,084	9,504
Finance receivables	7	138,969	160,312
Property, plant and equipment	18	13,054	26,866
Deferred tax assets	8	784	150
		181,891	196,832
Total assets		572,857	1,036,807
Current liabilities			
Loans and Borrowings	9, 15	186,592	651,829
Payables to related parties	15	145,441	128,760
Tax payables	6	2,307	1,794
Trade and other payables	10	42,857	63,669
Deferred income		1,376	2,060
Other liabilities (Employees)		1,612	1,297
		380,185	849,409
Non-Current liabilities			
Retirement benefit obligation	17	2,944	2,678
Loans and Borrowings	9, 15	74,243	73,970
		77,187	76,648
Total liabilities		457,372	926,057
Net assets		115,485	110,750

The notes on pages 12 to 50 form part of these financial statements.

IBM Finans Norge AS

Statement of Financial Position

As at 31 December 2019

Issued capital and reserves			
Share capital	11	45,000	45,000
Retained profits		70,485	65,750
Total equity		115,485	110,750

The financial statements were approved by the directors and authorised for issue on 30 March 2020.

Emil Stampe
(Member of the board)

Asbjørn Søgstad
(CEO)

Mats Eliasson
(Member of the board)

Trond Erik Steine
(Member of the board)

Søren Gert Christiansen
(Chairman of the board)

Henrik Visser
(Member of the board)

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IBM Finans Norge AS

Statement of Changes in Equity

As at 31 December 2019

	Issued capital NOK'000	Other paid-in capital NOK'000	Retained earnings NOK'000	Total equity NOK'000
At 1 January 2018	45,000	70,881	(10,724)	105,157
Profit for the financial year	-	-	5,491	5,491
Other comprehensive income	17	-	103	103
Total group contribution to owners of the company	-	9,831	(9,831)	-
At 31 December 2018	45,000	80,712	(14,961)	110,751
Profit for the financial year	-	-	4,887	4,887
Other comprehensive income	17	-	(153)	(153)
At 31 December 2019	45,000	80,712	(10,227)	115,485

The notes on pages 12 to 50 form part of these financial statements.

IBM Finans Norge AS

Statement of Cash Flow

For the Year Ended 31 December 2018

	Notes	2019 NOK'000	2018 NOK'000
Profit for the period		4,887	5,491
Adjustments for			
Income tax		1,276	1,664
Depreciation	18	11,417	14,459
Changes in operating assets and liabilities			
Difference between pension charge and cash contribution		70	227
Income tax paid	6	(1,353)	(5,705)
Income tax transfer	6	-	(3,104)
Decrease / (Increase) in receivables from related parties	15	(12,838)	(31,690)
Decrease / (Increase) in finance receivables	7	460,797	(318,012)
Decrease / (Increase) in inventory		42	(42)
(Decrease) / Increase in payables to related parties	15	16,681	(3,007)
(Decrease) / Increase in other payables	10	(20,812)	33,377
Increase/ (Decrease) in other liabilities		(369)	(917)
(Increase)/Decrease in prepayments		2,176	1,233
Net cash flow from operating activities		461,974	(306,026)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	(245)	(11,433)
Proceeds from sale of property, plant and equipment		2,640	3,220
Net cash flow from investing activities		2,395	(8,213)
Cash flows from financing activities			
(Decrease) / Increase in borrowing	9	(464,964)	312,658
Net cash flow from financing activities		(464,964)	312,658
Net increase in cash and cash equivalents		(595)	(1,581)
Cash and cash equivalents at beginning of the period		1,039	2,620
Cash and cash equivalents at end of the period	14	444	1,039

The notes on pages 12 to 50 form part of these financial statements.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

General information

IBM Finans Norge AS (the 'company') is a limited company incorporated in Norway. The company's immediate parent entity is IBM Global Financing Investments II B.V., a company incorporated in Netherland and the company's ultimate parent entity is International Business Machines Corporations ('IBM Corporation'), a company registered in the United States of America.

Basis of preparation

These financial statements have been prepared on a historical cost basis, and in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been applied consistently to all years presented, unless otherwise stated. The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in the notes to these financial statements.

The financial statements have been prepared on a going concern basis.

New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time commencing 1 January 2019:

- IFRS 16 Leases (effective from 1 January 2019);
- Prepayment Features with Negative Compensation – Amendments to IFRS 9;
- Long-term interests in Associates and Joint Ventures – Amendments to IAS 28;
- Annual Improvements to IFRS Standards 2016-2017 Cycle;
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19;
- Interpretation 23 Uncertainty over Income Tax Treatments;

IFRS 16 Leases

In January 2016, the IASB issued a new accounting standard, IFRS 16 'Leases', which changed the accounting for leases. The standard requires lessees to recognise right-of-use (ROU) assets and lease liabilities for most leases in the Statement of Financial Position. The new standard uses a single model for lessee accounting, eliminating the distinction between operating and finance leases. The standard also made some changes to lessor accounting and generally aligns with revenue recognition guidance under IFRS 15. The Company adopted the standard effective 1 January 2019 using the simplified retrospective transition method whereby prior comparative periods were not retrospectively presented. In applying IFRS 16 for the first time, the Company elected the practical expedients not to reassess prior conclusions related to contracts containing leases, whether leases are onerous applying IAS 37, and to exclude initial direct costs (IDC) for

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

New and amended standards adopted by the Company (*continued*)

any existing leases, and the lessee practical expedient to combine lease and non-lease components for all asset classes. The Company also made a policy election to not recognize ROU assets and lease liabilities for short-term leases for all asset classes. The standard had immaterial impact on the Statement of Financial Position as of the adoption date. There was no impact on Company's equity on adoption date. From a lessor perspective, the impact to the financial statements as a result of changes to the definition of a lease and changes to accounting for sublease and sale and leaseback transactions was not material at the date of adoption.

The new or amended standards did not have a material impact on the Company.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the company has not early adopted.

Amendments to IFRS 3 – definition of a business

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

Amendments to IAS 1 and IAS 8 on the definition of material

These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

The following new standards and their amendments have not yet been endorsed by the European Union:

- *IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021);*
- *Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020);*
- *Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020);*
- *Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020);*
- *Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).*

The company is currently assessing the impact of the new and amended standards on its financial statements.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Revenue Recognition

The Company accounts for a contract with a customer when it has written approval, the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection.

The primary source of revenue for the company is finance income. No revenue from contract with customers was generated in 2019; income is entirely related to other sources.

Finance income represents interest on lease and other receivables, cash and deposits and it is recognised on an accruals basis using the effective interest rate method. Finance income includes also income fee on factored receivables. Factoring fees are recognised at a point in time when the Company satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Operating lease income is recognised on a straight-line basis over the term of the lease.

Other expenses

Other expenses are recognised in the income statement as incurred. Other expenses include selling expenses, salaries, office supplies, non-income taxes, insurance and office rental.

Finance costs

Finance costs represent costs on finance and operating leasing, interest on bank overdrafts and short-term borrowings.

Foreign currencies

The financial statements of the company are presented in Norwegian Krone which is the functional currency of the company.

Transactions denominated in foreign currencies are translated at the rate prevailing at the transaction date. Foreign exchange differences are recognised in the income statement in the year on settlement of these items.

At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting foreign exchange differences are recognised in the income statement for the year.

Taxation

Income tax expense represents the current tax calculated on taxable profits for the year, any adjustments in respect of prior periods and any deferred tax charge or credit for the year.

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Taxation (*continued*)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that have been enacted and that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Leasing under IAS 17

Prior to the adoption of the new leasing standard on 1 January 2019, the Company accounted for leases under IAS 17 and prior comparative periods continue to be presented under this standard in the Financial Statements. Under IAS 17, leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Amounts due under finance leases are recorded as finance receivables at the amount of the Company's net investment in the leases representing the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

The recorded residual values of the Company's lease assets are estimated at the inception of the lease to be the expected fair value of the assets at the end of the lease term. The Company periodically reassesses the realisable value of its lease residual values. Any anticipated increases in specific future residual values are not recognised before realisation through remarketing efforts. Anticipated decreases in specific future residual values that are considered to be other than temporary are recognised immediately upon identification and are recorded as an adjustment to the residual value estimate.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Leasing under IAS 17 (*continued*)

For finance leases, this reduction lowers the recorded net investment and is recognised as a loss charged to finance income in the year in which the estimate is changed, as well as an adjustment to unearned income to reduce future period finance income.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Assets leased out under operating leases are included in property, plant and equipment in the balance sheet.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

The Company as lessee

Rentals payable under operating leases are charged to the profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also recognised on a straight-line basis over the lease term.

Leasing under IFRS 16

The Company conducts business as both a lessee and a lessor. In its ordinary course of business, the Company enters into leases as a lessee for property, plant and equipment. The Company is the lessor of certain equipment in financing activities relating to finance or operating lease.

When procuring goods or services, or upon entering into a contract with its customers, the Company determines whether an arrangement contains a lease at its inception. As part of that evaluation, the Company considers whether there is an implicitly or explicitly identified asset in the arrangement and whether the Company, as the lessee, or the customer, if the Company is the lessor, has the right to control that asset.

The Company determines whether there is a right to control the use of the asset by assessing its rights, as the lessee, or the customer's rights, if the Company is the lessor, to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset. If there is either an explicit or embedded lease within a contract and the Company is the lessor, the Company determines the classification of the lease (e.g., finance or operating lease) at the lease inception date.

The Company as lessee

Effective 1 January 2019, when the Company is the lessee, all leases with a term of more than 12 months are recognised as ROU assets and associated lease liabilities in the Statement of Financial Position. The lease liabilities are measured at the lease inception date and determined using the present value of the lease payments not yet paid and the Company's incremental borrowing rate, which approximates the rate at which the Company would borrow, on a secured basis, in the country where the lease was executed. The interest rate implicit in the lease is generally not determinable in transactions where the Company is the lessee.

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Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Leasing under IFRS 16 (continued)

The ROU asset equals the lease liability adjusted for any IDCs, prepaid and accrued rent and lease incentives. Fixed and in-substance fixed payments are included in the recognition of ROU assets and lease liabilities, however, variable lease payments, other than those based on a rate or index, are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which the obligation for those payments is incurred. The Company's variable lease payments generally relate to payments tied to various indexes and payments above a contractual minimum fixed payment. Real estate leases commonly require variable lease payments to reflect market changes, inflation and cost of property maintenance. In addition, vehicle leases may contain variable lease payments for excess mileage adjustments. The lease agreements do not impose any covenants on the Company.

ROU assets represent the Company's right to control the underlying assets under lease, and the lease liability is the obligation to make the lease payments related to the underlying assets under lease.

ROU assets are generally amortised on a straight-line basis over the lease term with the interest expense on the lease liability recorded using the effective interest method. The amortisation and interest expense are recorded separately in the Statement of Profit or Loss and Other Comprehensive Income. The Company has elected to not recognise leases with a lease term of less than 12 months in the Statement of Financial Position, including those acquired in a business combination, and lease costs for those short-term leases are recognised on a straight-line basis over the lease term in the Statement of Profit or Loss and Other Comprehensive Income.

For all asset classes, the Company has elected the lessee practical expedient to combine lease and non-lease components (e.g. maintenance services) and account for the combined unit as a single lease component.

The Company as lessor

The company typically enters into leases as part of financing activities. Assets under lease include new and used IBM equipment, lease of OEM products had been terminated in 2019.

Lease payments due to the Company are typically fixed and paid in equal instalments over the lease term. Payments that are made directly by the client to a third party, including certain property taxes and insurance, are not considered part of variable payments and therefore are not recorded by the company. The company excludes from consideration in contracts all collections from sales and other similar taxes.

When lease arrangements include multiple performance obligations, the company allocates the consideration in the contract between the lease components and the non-lease components on a relative standalone selling price basis.

Leases where substantially all the risks and rewards incidental to ownership of an asset are transferred to the lessee are classified as finance leases, whereas leases where all the risks and rewards incidental to ownership are not transferred to the lessee are classified as operating leases.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Leasing under IFRS 16 (continued)

If a lease is classified as a finance lease, the carrying amount of the asset is derecognised from inventory and a net investment in the lease is recorded. Net investment in the lease is measured at commencement date as the sum of the lease receivable and the estimated residual value of the equipment less unearned income and allowance for credit losses. For further information on the company's net investment in leases, refer to note 7, "Finance Receivables." Any selling profit or loss arising from a finance lease is recorded at lease commencement. Selling profit or loss is presented on a gross basis when the Company enters into a lease to realise value from a product that it would otherwise sell in its ordinary course of business, whereas in transactions where the Company enters into a lease for the purpose of generating revenue by providing financing, the selling profit or loss is presented on a net basis. Under a finance lease, IDC are expensed at lease commencement. Over the term of the lease, the Company recognises finance income on the net investment in the lease and any variable lease payments, which are not included in the net investment in the lease.

When the Company enters a sublease as a lessor, a determination is made as to whether it has been relieved of its primary obligation under the original lease. If the Company has been relieved of its primary obligation, the original lease is terminated. If the Company has not been relieved of its primary obligation, the original lease remains in place and the transaction is recorded based on the lease classification of both the original lease and the sublease. The classification of the sublease is determined by reference to the ROU asset in the original lease.

Financial instruments

Classes of financial instrument

The Company considers the following to be its classes of financial assets: cash and cash equivalents; finance receivables; and receivables from related parties. The following financial liabilities are presented as separate classes of financial liabilities: trade and other payables and payables to related parties.

Financial assets and financial liabilities are recognised initially at fair value, adjusted for directly attributable transaction costs (except financial instruments measured at FVTPL), in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. In determining the fair value of its financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. For the majority of financial instruments, standard market conventions and techniques such as discounted cash flow analysis, replacement cost and termination cost are used to determine fair value.

All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised. Valuation models and assumptions are calibrated to eliminate any immediate fair value gains or losses when the transactions are on arm's length basis. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, with immediate effect on profit or loss.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Financial instruments (*continued*)

Financial assets – classification and subsequent measurement – measurement categories.

The Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Debt financial assets – classification and subsequent measurement – business model.

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows”), or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 2 for critical judgements applied by the Company in determining the business models for its financial assets.

Debt Financial assets – classification and subsequent measurement – cash flow characteristics.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL.

In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 2 for critical judgements applied by the Company in performing the SPPI test for its financial assets.

Debt financial assets – reclassification.

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

The Company did not change its business model during the current and comparative period and did not make any reclassifications.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Financial instruments (*continued*)

Debt financial assets impairment – credit loss allowance for ECL

The Company on a forward looking basis measures ECL and recognises Net impairment losses on financial assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at amortised cost are presented in the statement of financial position net of the allowance for ECL.

For financial assets the Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Company identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 14 for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company’s definition of credit impaired assets and definition of default is explained in Note 14. The Notes 2 and 14 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Company incorporates forward-looking information in the ECL models.

Due to practical reasons the Company has decided to calculate only lifetime ECL and not 12 month ECL as it was impracticable to derive point-in-time probabilities of default. The Company therefore used current probabilities of default for lifetime ECL. The identified impairment loss was immaterial.

Debt financial assets – write-off

Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - derecognition

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Financial Instruments (*continued*)

Finance receivables.

Finance receivables are recognized initially at fair value and are subsequently carried at AC using the effective interest method in line with business model Hold to collect and SPPI assessment. Finance receivables with remaining maturity longer than 12 months are classified as non-current and those receivables with remaining maturity shorter than 12 months are classified current.

Cash and cash equivalents

Cash and cash equivalents include deposits held at call with banks and short-term deposits with related parties that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test.

Financial liabilities:

Classification

Financial liabilities are classified as financial liabilities measured at 'amortised cost. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition. Company do not have financial liabilities measured at FVTPL.

Amortised cost

The amortised cost of a debt instrument is calculated using the effective interest method which allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial instruments held at amortised cost include 'trade and other payables' (excluding 'other payables', 'accrued expenses' and 'social security and other taxes'), and 'payables to related parties'.

Trade and other payables

Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods or services. Amounts are unsecured and usually settled on standard commercial trade terms. Trade and other payables are initially measured at fair value.

Trade and other payables are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Financial instruments (*continued*)

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages, salaries and other benefits when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Defined contribution plans

Contributions to defined contribution retirement plans are recognised as an expense when the employees have rendered services entitling them to the contributions.

Defined benefit and other post-retirement benefit plans

For defined benefit retirement plans and other post-retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

1. Statement of compliance, basis of preparation, and significant accounting policies

Employee benefits (*continued*)

Actuarial gains and losses are recognised in full in the period in which they occur, outside of the income statement, and presented in other comprehensive income. Past service cost is recognised immediately to the extent that benefits are already vested, or amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, less the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of benefits accruing to the company available in the form of refunds and reductions in future contributions to the plan.

Property, plant and equipment

Property, plant and equipment held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less any accumulated depreciation and accumulated impairment losses.

The depreciable amount of an asset is determined after deducting its residual value. The residual value of an asset is the estimated amount that the company would obtain from the disposal of the asset, after deducting the estimated cost of disposal.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives used in the calculation of depreciation and amortisation are as follows:

Fixtures and fittings	-	5-15 years
Lease assets	-	1.5-5 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the period.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

2. Significant accounting estimates and assumptions

The application of accounting standards and policies requires the company to make estimates and assumptions about future events that directly affect its reported financial condition and operating performance. The accounting estimates and assumptions discussed are those that the company considers to be most critical to its financial statements. An accounting estimate is considered critical if both (a) the nature of estimates or assumptions is material due to the level of subjectivity and judgement involved, and (b) the impact within a reasonable range of outcomes of the estimates and assumptions is material to the company's financial condition or operating performance.

Revenue recognition

Application of the various accounting principles in IFRS related to the measurement and recognition of revenue requires that the Company make judgements and estimates. The Company considers various factors, including a review of specific transactions, the credit-worthiness of the customers, historical experience and market and economic conditions when calculating provisions and allowances.

Pension assumptions

The measurement of the Company's defined benefit obligation to its employees and net periodic pension cost/income requires the use of certain assumptions, including, among others, estimates of discount rates and expected return on plan assets. Changes in these assumptions may affect the future funding requirements of the plans and actuarial gain/loss recognised in the statement of comprehensive income.

ECL measurement

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

The Company performed individual management assessments to incorporate forward-looking macro-economic review on the portfolios. The assessment calculated the expected losses under the PD x LGD model and layered this calculation with the management assessment of the portfolio. The company concluded, if the allowance is appropriate based on the economic assessment. The current economic environment of the country and the focused industries of the portfolio was discussed. Specific parameters/scenarios were not simulated. The assessment review was based on publications from Moody's and focuses on overall economic outlook, primarily including expected GDP growth or decline, and also on a particular industry within the country based on the portfolio concentration.

Adding a stress factor of 20% to the PD x LGD rates to assess potential impacts from the statistical model results in immaterial increase in provision.

The Company has decided to calculate only lifetime ECL and not 12 month ECL as it was impracticable to derive point-in-time probabilities of default. The Company therefore used current probabilities of default for lifetime ECL

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

2. Significant accounting estimates and assumptions (*continued*)

Significant increase in credit risk ("SICR")

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available) which is then incorporated into the internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

The Company determines a receivable may be considered a significant increase in risk if the current credit quality of the receivable carries an internal rating of GRMG 7 (further details are disclosed in Note 14). Default is defined as the point in time a client is added to the watch-list for credit risk tracking. The Company does not consider a past due status of 90 days as an indicator of default. The Company performs a monthly assessment of the financing receivables portfolio based on a number of factors including but not limited to exposure, credit risk, economic stability, disputes and past due status. Based on this review, the Company determines when a customer is in default.

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Company considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Company assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Company's control, is not recurring and could not have been anticipated by the Company, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

2. Significant accounting estimates and assumptions (*continued*)

Currently the Company does not hold any financial instruments categorized as hold to collect and sell portfolio.

Assessment whether cash flows are solely payments of principal and interest ("SPPI")
Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

The Company identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Company considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply (such as bail in legislation in certain countries), are not relevant for assessing whether cash flows are SPPI.

The Company do not have instruments that failed the SPPI test.

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Company assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. There were no modifications of financial assets during neither current nor prior reporting period.

Write-off policy

Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery:

- start of liquidation or bankruptcy proceedings,
- fair value of collateral is less than the costs to repossess it or
- enforcement activities were completed.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

3. Finance income

	2019	2018
	NOK'000	NOK'000
Operating lease income	13,675	16,567
Factoring income	19,156	19,996
Capital lease income	9,037	5,720
Interest income	782	1,037
Other operating income	2,081	3,591
	<u>44,731</u>	<u>46,911</u>

No revenue from contract with customers was generated in 2019, therefore income is entirely related to other sources.

For commercial financing, the interest for the extended period is fixed above Base rate. Base Rate is the one month NIBOR rate published by Norges Bank on the first working day of a calendar month, the Base Rate will be changed to NIBOR appearing for the last working day of the previous calendar month. If at any time, NIBOR changes by 0.25% or more, the Base Rate will be changed by the same amount on the day of such change or the next following working day. In case of negative Base Rate a minimum Base Rate of 0 % will be used. For client Financing, we operate with fixed interest rate.

4. Finance costs

	2019	2018
	NOK'000	NOK'000
Costs of operating leases	12,805	15,648
Costs of capital leases	-	(369)
Pension cost	70	-
Interest expense	7,204	6,030
Costs of other operating income	1,486	2,777
	<u>21,565</u>	<u>24,086</u>

IBM Finans Norge AS has loans with IBM GF International Treasury Company Designated Activity Company (hereinafter referred to as "Treasury Center"). The interest for In House Bank account is NIBOR 1MND+0,15% and Customer financing term loans have fixed rate.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

5. Other expenses

	2019	2018
	NOK'000	NOK'000
Employee expenses	7,255	7,768
Other expenses	9,335	8,955
Audit services (excl. VAT) - Statutory audit	240	245
	<u>16,830</u>	<u>16,968</u>

The employees at IBM Finans Norge AS have employment agreement with IBM Finans Norge AS. The average number of man-year employed in 2019 was 5 (2018: 8 man-year).

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

6. Income tax expense

(a) Analysis of charge / (credit) in the year

In respect of the period:	2019	2018
	NOK'000	NOK'000
Current tax	2,307	1,794
Current tax - prior year adjustment	(441)	-
Deferred tax - prior year adjustment (note 8)	404	-
Deferred tax (note 8)	(994)	(130)
Income tax expense /(credit)	<u>1,276</u>	<u>1,664</u>

(b) Factors affecting tax charge / (credit)

	2019	2018
	NOK'000	NOK'000
Profit before income tax	<u>6,163</u>	<u>7,155</u>
Tax at the domestic income tax rate of 22%	1,356	1,646
Movement of deferred tax in respect of change in tax rate in 2018	-	15
Prior year adjustment	(37)	-
Other	(43)	3
Total income tax expense (note 6(a))	<u>1,276</u>	<u>1,664</u>

(c) Analysis of tax payable

	2019	2018
	NOK'000	NOK'000
At 1 January	1,794	8,809
Payment to tax authorities	(1,353)	(5,705)
Charged / (credited) to income statement	1,866	1,794
Group contribution	-	(3,104)
At 31 December	<u>2,307</u>	<u>1,794</u>

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

7. Finance receivables

	31/12/2019	31/12/2018
	NOK'000	NOK'000
Current		
Commercial financing receivables	203,252	670,121
Finance lease receivables	56,075	49,416
Customer loans	116,450	95,521
	<u>375,777</u>	<u>815,058</u>
Loss allowance (Note 14)	(1,160)	(987)
	<u>374,617</u>	<u>814,071</u>
Non-current		
Commercial financing receivables	-	-
Finance lease receivables	46,601	39,796
Customer loans	92,902	121,050
	<u>139,503</u>	<u>160,846</u>
Less:		
Loss allowance (Note 14)	(534)	(534)
	<u>138,969</u>	<u>160,312</u>

Finance lease receivables are for leases that relate principally to the company's equipment and are generally for terms ranging from two to seven years. Customer loans are provided by the company to clients to finance the purchase of IBM's software and services.

Finance lease and customer loan receivables include invoiced amounts not paid at the end of the year. The average contractual credit period on invoiced amounts is 0 to 30 days. Thereafter, interest is charged at market rates on the outstanding balance.

Before entering into a finance lease arrangement, the company undertakes a credit assessment on the proposed transaction, either through the IBM Credit Team or, for certain transactions of a lower size, a credit scoring system based on external credit agency information, to assess the customer's credit quality and define credit limits by customer. Credit limits for most customers are valid for no more than six months and are re-assessed if required to be extended. The balances on leases for hardware are usually secured over the leased equipment.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

7. Finance receivables (continued)

Amounts receivable under finance leases	Minimum lease payments ("MLP")		Present value of MLP	
	2019 NOK'000	2018 NOK'000	2019 NOK'000	2018 NOK'000
Not later than one year	54,663	48,709	51,005	46,342
Later than one year and not later than five years	44,499	37,251	42,367	35,340
Later than five years	135	3,569	121	3,519
			93,493	85,201
Add : Un-garanteed residual value	4,415	572		
Less: Unearned finance income	(5,805)	(4,328)		
Less: Provision for impairment	(477)	(304)		
	97,430	85,469		

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest contracted is approximately 4.67% per annum (2018: 3.40%). The finance lease receivables are effectively collateralised by the leased assets as the right to the asset reverts to the company in case of the counterparty's default. Such finance lease receivables are secured by hardware assets.

8. Deferred tax

Movement in the deferred tax asset / (liability)

	Retirement benefit NOK'000	Other NOK'000	Total NOK'000
At 1 January 2018	381	(394)	(13)
(Charged)/credited to I&E	11	123	134
(Charged)/credited to Other Comprehensive Income	29	-	29
At 31 December 2018	421	(271)	150
(Charged)/credited to I&E	57	533	590
(Charged)/credited to Other Comprehensive Income	44	-	44
At 31 December 2019	522	262	784

The recognition of deferred tax assets is determined by reference to the company's estimate of recoverability based on models to forecast future taxable profits.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

9. Loans and borrowings

	31/12/2019	31/12/2018
	NOK'000	NOK'000
Loans due to related companies (note 15)	260,835	725,799
	<u>260,835</u>	<u>725,799</u>

Customer financing term loans have fixed rate. Interest for In House Bank account is charged at variable rates based on NIBOR.

10. Trade and other payables

	31/12/2019	31/12/2018
	NOK'000	NOK'000
Trade payables	27,572	57,043
Social Security and Other taxes	14,844	5,573
Other Payables	441	1,053
	<u>42,857</u>	<u>63,669</u>

11. Share capital and shareholder information

	2019	2018
	NOK'000	NOK'000
Authorised, issued and fully paid shares		
45 000 ordinary shares of par value 1 000.01 NOK each	45 000	45 000

All shares have equal rights.

Shareholder information

IBM Finans Norge AS is a 100% owned subsidiary of IBM Global Financing Investments II B.V. located in Netherland. The company is located in Lakkegata 53, 0187 Oslo, Norway.

12. Contingencies

At 31 December 2019, the company had no contingent liability in respect of bank guarantees.

13. Events after balance sheet date

Late in 2019, news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020, the virus spread globally. The Company considers this outbreak to be a non-adjusting post balance sheet event. The Company is currently unable to assess the full impact of COVID-19 virus on its future financial position and the results of operations, however, depending on future developments, it may have a negative impact on the Company.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments

Financial risk management

The company is exposed to a variety of financial risks as a result of its operations that include the effects of changes in liquidity and interest rate risk, credit risk, market prices, and foreign exchange risk. The company has a strong risk management programme in place aligned to the programmes applied within the consolidated group of the company's ultimate parent company, International Business Machines Corporation.

Capital risk management

The company manages its capital to ensure that the company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the company consists of debt to related parties disclosed in note 15, and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in the statement of changes in equity.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

	Weighted average effective interest rate	31/12/2019 NOK'000	Weighted average effective interest rate	31/12/2018 NOK'000
Financial assets				
<i>Loans and receivables</i>				
<i>Interest bearing</i>				
Cash and cash equivalents	0.05	444	0.05	1,039
Receivables from related parties	2.55	42,360	5.05	19,296
Finance receivables	3.98	310,395	2.70	320,914
<i>Non-interest bearing</i>				
Finance receivables		203,191		653,469
Receivables from related parties		2,531		12,759
		<u>558,921</u>		<u>1,007,477</u>
Financial liabilities				
<i>Amortised costs</i>				
<i>Interest bearing</i>				
Loans and Borrowings	1.56	260,835	1.26	725,799
<i>Non-interest bearing</i>				
Payables to related parties		145,441		128,760
Trade and other payables		28,013		58,096
		<u>434,289</u>		<u>912,655</u>

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments (*continued*)

Financial risk management objectives

IBM's corporate treasury function provides funding and risk management services to the company. Risk management services are provided through the monitoring and management of financial risks relating to the operations of the company through internal risk reports addressing market risk (including currency risk and interest rate risk), credit risk, liquidity risk, and cash flow interest rate risk. This includes performing sensitivity analysis on market risks to determine the effect of changes in foreign exchange and currency rates on the company's financial performance and position.

Foreign currency risk

The company does not undertake any material transactions denominated in foreign currencies, hence no considerable exposure to exchange rate fluctuations arise.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company. The company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The company carries out credit checks on potential customers before contracts are entered into. This information is supplied by independent rating agencies where available and, if not available, the company uses other publicly available financial information and its own trading records to rate the major customers. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management team annually. Cash balances held with the IBM Treasury Centre and IBM Global Financing Investments II B.V, which the directors assess as having high credit ratings.

Financial assets consist of a large number of customers and related parties, spread across diverse industries and geographical areas; however, the company has significant concentration of credit risk. The top five debtors represent 66 % (2018: 72 %) of the company's total loans and receivables. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Financing receivables are subject impairment criteria for expected credit losses.

The Company considers the probability of default upon the initial recognition of the receivable and whether there has been a significant increase in credit risk at each reporting period. The Company does not consider 30 days past due as an indicator for a significant increase in credit risk. The Company uses credit quality indicators which are based on rating agency data, publicly available information and information provided by customers and are reviewed periodically based on the relative level of risk. The resulting indicators are used to determine if there is a significant increase in credit risk and include a numerical rating system that maps to Moody's Investor Service credit ratings. The Company uses information provided by Moody's, where available, as one of many inputs in its determination of customer credit ratings.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments (continued)

Credit risk management (continued)

The Company does not consider a past due status of 90 days as an indicator of default. The Company performs a monthly assessment of the financing receivables portfolio based on a number of factors including but not limited to exposure, credit risk, economic stability, disputes and past due status. Based on this review, the Company determines when a customer is in default.

A write-off represents a receivable that is deemed uncollectible to the extent that the customer is no longer in operation and/or there is no reasonable expectation of additional collections or repossession. The Company's assessments factor in the history of collections and write-offs across the trade receivables, contract assets and financing receivables portfolios.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9; however, the expected credit losses were immaterial based on calculation carried by Company, due to short-term nature of cash and cash equivalents and good credit ratings of financial institutions. All of the prior period balances were neither past due nor impaired.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Company applies two approaches – an internal risk based approach (GRMG) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Corresponding internal ratings	Corresponding ratings of external international rating agencies (Moody's)	Corresponding PD interval (12 months)
[1]	Aaa to Aa3	0,013%
[2-3]	A1 to Baa3	0,079% - 0,186%
[4-5]	Ba1 to B1	0,483% - 1,038%
[6]	B2 to B3	3,157%
[7]	Caa to D	21,889%-100%

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments (continued)

Credit risk management (continued)

The following table represents the assumptions by credit risk rating grades:

Credit Risk Rating	Company definition	Basis for recognition of ECL provision	Gross carrying amount
Aaa-Baa3	Customers that are investment grade and have a strong capacity to meet contractual cash flows	The Company applies 3 stage approach to loan receivables. If the difference between the Stage 1 12-month ECL and Stage 2 lifetime ECL is significant, a 12-month ECL is recorded, if immaterial a lifetime ECL is recorded. Lifetime ECL recorded for lease receivables	2019 NOK'000 198,732
Ba1-D	Customer that are non-investment grade	The Company applies 3 stage approach to loan receivables. If the difference between the Stage 1 12-month ECL and Stage 2 lifetime ECL is significant, a 12-month ECL is recorded, if immaterial a lifetime ECL is recorded. Lifetime ECL recorded for lease receivables	113,296
Specific Impairment	Uncollectible	Partially impaired or asset is written off.	835

The following represents the analysis of credit risk exposure for finance receivables and the expected credit loss is recognised. The gross carrying amount also represents the maximum exposure to credit risk for financing receivables.

	31 December 2019	
	Lease	Loan
	NOK'000	NOK'000
Aaa-Baa3	47,800	150,932
Ba1-D	54,876	58,420
Specific Impairment	(433)	(402)
Gross carrying amount	102,243	208,950
Loss allowance for credit losses	(80)	(872)
Carrying amount	102,163	208,078

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments (continued)

Credit risk management (continued)

The following represents the movement in loss allowance for loan receivables:

	Lifetime** ECL NOK'000	Impaired*** NOK'000	Total NOK'000
Loss allowance at 1 January 2019	842	-	842
Transfer from collectively evaluated to specific impairment	-	-	-
New loan receivables	30	540	570
Write-offs	-	-	-
Recoveries of previous written off amounts	-	-	-
Changes to model assumptions and other	-	(138)	(138)
Total change in loss allowance during the period.	872	402	1274

** Lifetime ECL represents the expected credit loss over the life of the asset.

*** Impaired assets are credit impaired at the reporting date as a result of significant increase of credit risk. These assets were not credit impaired upon purchase or origination.

The following represents the movement in loss allowance for lease receivables:

	Lifetime** ECL NOK'000	Impaired*** NOK'000	Total NOK'000
Loss allowance at 1 January 2019	45	295	340
Transfer from collectively evaluated to specific impairment	-	-	-
New lease receivables	35	-	35
Write-offs	-	-	-
Recoveries of previous written off amounts	-	-	-
Changes to model assumptions and other	-	138	138
Total change in loss allowance during the period.	80	433	513

** Lifetime ECL represents the expected credit loss over the life of the asset.

*** Impaired assets are credit impaired at the reporting date as a result of significant increase of credit risk. These assets were not credit impaired upon purchase or origination.

Net impairment losses on financial assets balance visible in Statement of Profit or Loss and Other Comprehensive Income includes 605 thousand NOK impairment/credit loss related to customer financing receivables and (432) thousand NOK release related to commercial financing receivables. The commercial financing receivables are unrated.

Cash and cash equivalents includes cash at bank in the amount of 444 thousand NOK, rated Aa3 by Moody's (rating of 2018: Aa3).

A large part of the loans are covered by credit insurance. Credit insurance cover is against:

- *Insolvency* is where a business literally goes out of business.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments (continued)

Credit risk management (continued)

- *Protracted default* is where we have unpaid AR 180-days past the invoice due date. It is unlikely a business will still be operating in 180-days if it is not paying its AR, as it would suggest a cash flow issue.
- *Political risk* (in case of cross border transactions) – losses caused by government actions. The insurer standardly covers approved debt up to 120 days. Contractual interest for extended terms is also covered under the policy. The insurer will reimburse 90% of the insured exposure. Company bears 10% of all losses.

(i) Past due but not impaired finance receivables

Included in finance receivables balance are receivables with a carrying amount of NOK 79 972 392 (2018: 64 044 493 NOK) respectively which are past due at the reporting date but not impaired. The company considers that the amounts are still fully recoverable.

Aging of past due but not impaired receivables

	2019	2018
	NOK'000	NOK'000
0-90 days	79,385	62,957
91- 180 days	101	35
181- 365 days	412	46
over 365 days	74	6
	<u>79,972</u>	<u>63,044</u>

Provision for impairment

	2019	2018
	NOK'000	NOK'000
At 1. January	1,521	3,123
Impairment losses recognized	914	481
Amounts written off	-	(146)
Release of impairment	(741)	(1,937)
At 31 December	<u>1,694</u>	<u>1,521</u>

In determining the recoverability of finance receivables, the company considers any change in the credit quality of the receivables from the date credit was initially granted up to reporting date. The concentration of credit risk is limited due to the customer base being large and diverse. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for impairment of trade receivables.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments (continued)

Interest rate risk management

The company is funded by the IBM Treasury Centre in Ireland and IBM Global Financing Investments II B.V. As the company invests or borrows cash balances, it operates in either a receivable or payable position. Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

The company's exposures to interest rates on financial assets and financial liabilities are detailed in Categories of financial instruments table in this note.

The company performs sensitivity analysis to determine the effects from exposure to interest rates risk. For financial assets and liabilities exposed to interest rate risk, the analysis is prepared assuming the balances at the reporting date were outstanding for the whole year.

At the reporting date, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the company's net profit would decrease/increase by NOK 453 000 NOK (2018: decrease/increase by NOK 983 000). This is mainly attributable to the company's exposure to interest rates on borrowings and cash deposits.

Liquidity risk management

The company is funded internally by the IBM Treasury Centre in Ireland. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the IBM Treasury Centre.

The company holds financial liabilities with contractual maturity within one year. The contractual maturity is based on the earliest date on which the company may be required to pay, however the function of the IBM Treasury Centre is to continuously support the operation and to secure that IBM Finans Norge AS meet their obligations as they fall due. The table below have been drawn up based on the undiscounted contractual cash flows of the financial liabilities including principal cash flows.

Liquidity table

2019	< 1 year	1-5 years	> 5 years	Total
<i>Financial assets</i>				
Cash and cash equivalents	444	-	-	444
Receivables from related parties	15,807	29,084	-	44,891
Finance receivables	374,617	138,969	-	513,586
	390,868	168,053	-	558,921
<i>Financial liabilities</i>				
Loans and Borrowings	186,592	74,243	-	260,835
Payables to related parties	145,441	-	-	145,441
Trade and other payables	28,013	-	-	28,013
	360,046	74,243	-	434,289
2018				
<i>Financial assets</i>				
Cash and cash equivalents	1,039	-	-	1,039
Receivables from related parties	22,551	9,504	-	32,055
Finance receivables	814,071	160,313	-	974,384
	837,661	169,817	-	1,007,478
<i>Financial liabilities</i>				
Loans and Borrowings	651,829	73,970	-	725,799
Payables to related parties	128,760	-	-	128,760
Trade and other payables	58,096	-	-	58,096
	838,685	73,970	-	912,655

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

14. Financial instruments (continued)

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- Other financial assets and financial liabilities, excluding derivative financial instruments, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management consider that the carrying amount of financial assets and financial liabilities in the financial statements approximate their fair values. There are no financial assets and/or liabilities that were already recognised at fair value through profit and loss.

15. Related party transactions

Related parties include parent companies, entities under common control ('group undertakings'), subsidiaries and key management personnel. The company enters into transactions with related parties in the ordinary course of business for the purchase or sale of services provided to and from related parties, purchase of investment from related parties, in relation to group funding arrangements with related parties and in relation to the factoring of trade receivables with related parties.

The company's immediate parent undertaking is IBM Global Financing investments II B.V which holds 100% of the shares and is registered in Netherlands.

The company's ultimate parent undertaking and controlling party is International Business Machines Corporation which is incorporated in the United States of America and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the financial statements of this undertaking may be obtained from IBM Corporate Headquarters, 1 New Orchard Road, M/D 325, Armonk, New York 10504.

The following transactions were carried out with related parties:

Class of related party	Transaction type	2019 NOK'000	2018 NOK'000
Other related undertakings	Sales	6,782	7,532
	Purchases	(776)	(985)
	Other expenses	621	17
	Interest paid	(7,204)	(6,015)
	Interest received	751	1,005

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

15. Related party transactions (*continued*)

Details of the amounts receivable from, payable to and borrowing from related parties are set out below:

Receivables from related parties

	2019	2018
	NOK'000	NOK'000
Other related parties	44,891	32,055
	<u>44,891</u>	<u>32,055</u>

Payable to related parties

	2019	2018
Other related parties	145,441	128,760
	<u>145,441</u>	<u>128,760</u>

Loans due to related parties

	2019	2018
	NOK'000	NOK'000
Other IBM group undertaking	260,835	725,799
	<u>260,835</u>	<u>725,799</u>

Customer financing term loans have fixed rate. Interest for In House Bank account is charged at variable rates based on NIBOR.

The amounts outstanding on these balances are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior year for bad or doubtful debts in respect of the amounts owed by related parties.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

15. Related party transactions (*continued*)

Key management compensation

The total remuneration of members of key management in respect of services to the company was as follows:

	2019 NOK'000
Short term employee benefits	1 549
Share based options	-
	<u>1 549</u>

Remuneration of CEO and Board of Directors' members was as follows:

	2019	
	CEO NOK '000	Board of Directors NOK '000
Short term employee benefits	1 549	4 134
Pension cost	99	160
	<u>1 648</u>	<u>4 294</u>

The split between CEO's fixed salary and variable pay is as follows:

	2019 NOK '000
Variable pay	144
Fixed salary	1 309
Vacation pay	223
Deduction for vacation	(127)
	<u>1 549</u>

The CEOs variable pay is calculated twice a year from the value of new client financing contracts signed within 1st half and 2nd half of the year. Car allowance is NOK 6000 per month.

The fixed part is 55% of the on-target salary. The same model also applies to sellers in the company. The CEO has no termination benefits.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

16. Capital coverage

	31/12/19 NOK'000	31/12/18 NOK'000
100 % weighted: Finance receivables	230 973	224 450
50 % weighted: Finance receivables	91 463	311 875
20 % weighted: Finance receivables	31 497	35 197
Base for operational risk	64 966	59 452
Base for 8% risk	418 899	630 974
Responsible capital	115 485	110 750
Credit risk	28 315	45 721
Operational risk	5 197	4 756
Coverage of responsible capital	81 973	60 273
Buffer:		
Preservebuffer	10 472	15 774
Countercyclical capital buffer	10 472	12 619
Systemriskbuffer	12 568	18 929
	33 512	47 322
Coverage less requirement after the buffer requirement	48 461	12 951
Pilar 2 requirement 2.6% (0.4% in 2018)	10 891	2 523
Control buffer 1% (2% in 2018)	4 189	12 619
Coverage after all requirements	33 381	(2 191)

	Actual pr. 31/12/2019	Requirement + Pilar 2	Incl. control buffer
Common equity Tier 1 (Ren kjernekapital)	27.6%	15.1%	16.1%
Core capital (Kjernekapital)	27.6%	16.6%	17.6%
Responsible capital (Ansvarlig kapital)	27.6%	18.6%	19.6%

The capital for the company is covered good within the minimum requirements. IBM Finans Norge AS is not giving any guarantees. A large part of the loans is covered by credit-insurance.

During 2019 there has been minimal losses and we expect that this will continue in 2020.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

17. Retirement benefit obligations

Defined benefit plans

The amounts recognised in the statement of financial position are determined as follows:

	31/12/19 NOK'000	31/12/18 NOK'000
Present value of funded defined benefit obligation	(10 615)	(10 317)
Fair value of plan assets	7 670	7 638
(Deficit) / Surplus of funded plan	(2 945)	(2 679)
Impact of minimum funding requirement /asset ceiling	-	-
Net liability arising from defined benefit obligations	(2 945)	(2 679)

The company operates a defined benefit pension plan, under which employees are entitled to defined benefits covering old age pension, disability pension, spouse pension and child pension for employees. Retirement age applicable under both plans is 67. The company's pension scheme meets the requirements of the law on compulsory occupational pension (Lov om obligatorisk tjenstepensjon).

The plan provides for pension benefits outlined above on pensionable earnings capped at twelve times the Social Security base amount. The plan is funded in IBM Konsern pensjonskasse, and is closed to new participants.

The present value of the defined benefit obligations, the related current service cost, and past service cost are measured using the projected unit credit method.

Regulatory Framework

IBM Konsern pensjonskasse operates in accordance with the law on occupational defined benefit pension (Lov om foretakspensjon) and is licensed by and operates under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

Governance

IBM Konsern pensjonskasse is legally separated from the company. The legal board of IBM Konsern pensjonskasse comprises four representatives appointed by International Business Machines AS, of which one independent representative and one representatives elected among the members. The legal board of the pension fund is fully responsible for operating the fund in compliance with applicable laws and regulations.

International Business Machines AS has established an investment board that gives guidance to the legal board on the management of the fund assets.

The fundamental objective of the defined benefit fund is the preservation of capital with sufficient growth to assure adequate resources to meet future obligations for the payment of benefits. Defined benefit funds are prudently managed and broadly diversified to achieve a reasonable rate of return with an acceptable level of risk.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

17. Retirement benefit obligations (*continued*)

General risks

The company's obligations under defined benefit plans which include direct payments to beneficiaries and statutory minimum funding requirements may significantly vary depending on number of market, economic, and demographic conditions, such as yields on government and corporate debt, return on plan assets invested in debt and equity securities as well as pooled funds, employee turnover and retiree mortality rates.

These risk factors may affect the Company's future cash outflows to fund its obligations, amounts of periodic benefit costs used in calculating net profit and re-measurement charges reported in other comprehensive income.

Asset volatility

The plan liabilities are calculated using a discount rate set based on covered corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

The pension obligations are not directly linked to inflation, but higher inflation may lead to higher liabilities as a result of higher salary increases. The majority of the plan assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation may also increase the deficit.

Life expectancy

The plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

17. Retirement benefit obligations (*continued*)

The movement in the net defined benefit obligation over the year is as follows:

	2019 NOK'000	2018 NOK'000
Present value of defined benefit obligation		
At 1 January	(10 317)	(10 590)
Current service cost	-	(171)
Interest (expense) / income	(262)	(255)
Remeasurement:		
Actuarial gain / (loss) – experience	(46)	399
Actuarial gain / (loss) – financial assumptions	(436)	300
Actuarial gain / (loss) – demographic assumptions	-	-
Past service cost and gain / (loss) on settlements	-	-
Benefits paid		
Employer	-	-
Trust	446	-
Plan participants' contributions	-	-
Exchange differences	-	-
Acquired in business combination	-	-
Termination benefits	-	-
Other	-	-
At 31 December	<u>(10 615)</u>	<u>(10 317)</u>
Fair value of plan asset		
At 1 January	7 638	8 069
Interest (expense) / income	193	194
Remeasurement:		
Return on plan assets (excluding amounts included in interest (expense)/income)	285	(625)
Contribution:		
Employer	-	-
Plan participants	-	-
Benefits paid	(446)	-
Settlements	-	-
Exchange differences	-	-
Acquired in business combination	-	-
Other	-	-
At 31 December	<u>7 670</u>	<u>7 638</u>

Plan Amendments, Curtailments and Settlements

No plan amendments, curtailments or non-routine settlements have been incurred in 2019.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

17. Retirement benefit obligations (continued)

Amounts recognized in the income statement:

	2019 NOK'000	2018 NOK'000
Current service cost	-	171
Net interest cost on net liability (asset)	69	61
	<u>69</u>	<u>232</u>

Amounts recognized in other comprehensive income:

	2019 NOK'000	2018 NOK'000
Remeasurement (gains) / losses on plan assets	(285)	625
Remeasurement (gains) / losses on plan liabilities	482	(699)
Recognised during the year	<u>197</u>	<u>(74)</u>

IBM Konsern pensjonskasse invests plan assets in a prudent manner, with the target mix of 40% equities and 60% fixed income. Approximately 80% of investments are actively managed.

The table below analyses plan assets carried at fair value, by valuation method.

The fair value and the composition of plan assets are as follows:

	2019			Total	2018			Total
	Level 1	Level 2	Level 0		Level 1	Level 2	Level 0	
Equity								
Equity securities	1000	-	-	1 000	830	-	-	830
Equity pooled funds	-	-	1 405	1 405	-	-	1 720	1 720
Fixed income								
Government securities	-	2 574	-	2 574	-	2 572	-	2 572
Corporate bonds	-	2 113	-	2 113	-	2 098	-	2 098
Insurance contracts	-	-	-	-	-	-	-	-
Cash and cash equivalents	82	24	292	398	110	58	112	280
Commingled/mutual funds	-	-	174	174	-	-	175	175
Derivatives								
Forwards	-	6	-	6	-	(37)	-	(37)
Futures	-	-	-	-	-	-	-	-
Accruals				<u>-</u>				<u>-</u>
				<u>7 670</u>				<u>7 638</u>

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

17. Retirement benefit obligations (*continued*)

There are no plan assets measured at Level 3 fair value.

The company does not hold any of its own transferable financial instruments, property occupied by or other assets used by it as plan assets.

Significant Actuarial Assumptions

	2019	2018
	%	%
Discount rate	2.30	2.60
Inflation assumption	2.00	2.50
Expected rate of salary increase / salary inflation rate	2.00	2.50
Expected future pension increases	2.00	2.00
Increase in social security base amount	2.00	2.50

The actuarial valuation incorporates mortality assumptions in line with the local experience of this and similar plans.

Amount, Timing and Uncertainty of Future Cash Flow

Sensitivities

The sensitivity analyses below have been determined based on reasonably possible changes in actuarial assumptions at the end of the reporting period while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The following table demonstrates increase (decrease) in defined benefit obligation and net liability resulting from a change in each actuarial assumption with all other variables held constant at the end of the reporting period.

	2019	2018
	NOK'000	NOK'000
Discount rate - 0.25% assumed:		
0.25% decrease	383	377
0.25% increase	(365)	(359)
Mortality:		
1 year increase in lifetime of participants	463	428
1 year decrease in lifetime of participants	(421)	(391)

Reasonably possible changes in other actuarial assumptions would not have material effect on the amount of defined benefit obligation and net liability.

Expected Contributions

The funding of the pension fund is based on the minimum cash contribution required to be in compliance with the requirements of the Law on occupational defined benefit pensions (Lov om foretakspensjon). The pension fund may be partly funded by excess return on fund assets, but is otherwise funded from cash generated by the company's operation.

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

17. Retirement benefit obligations (*continued*)

The expected contributions to pension funds and direct payments to retirees in 2020 are as follows:

	NOK'000
Contributions to pension funds	-
Direct payments for retirees	456
Expected employee cash outflow	<u>456</u>

Maturity Profile

The durations of defined benefit pension obligations at the end of the reporting period on 31 December 2019 was 13.03.

The expected maturity analysis of undiscounted defined benefit payments are as follows:

	31/12/19	31/12/18
	NOK'000	NOK'000
Not later than one year	456	446
Later than one year and not later than five years	2 237	2 173
Later than five years	8 015	7 814
	<u>10 708</u>	<u>10 433</u>

IBM Finans Norge AS

Notes to Financial Statements

For the Year Ended 31 December 2019

18. Property, plant and equipment

	Equipment NOK'000	Leased Equipment NOK'000	Total NOK'000
Cost			
At 1 January 2018	161	55,212	55,373
Additions	-	11,433	11,433
Disposals	-	(7,752)	(7,752)
Reclassification, transfers, other	(7)	(7,429)	(7,436)
At 31 December 2018	154	51,464	51,618
Additions	-	245	245
Disposals	(6)	(6,910)	(6,916)
Reclassification, transfers, other	(6)	(8,303)	(8,309)
At 31 December 2019	142	36,496	36,638
Accumulated depreciation			
At 1 January 2018	(145)	(22,117)	(22,262)
Additions	(16)	(14,443)	(14,459)
Disposals	-	5,819	5,819
Reclassification, transfers, other	7	6,142	6,149
At 31 December 2018	(154)	(24,599)	(24,753)
Additions	-	(11,416)	(11,416)
Disposals	6	5,659	5,665
Reclassification, transfers, other	6	6,914	6,920
At 31 December 2019	(142)	(23,442)	(23,584)
Net book value			
At 31 December 2019	-	13,054	13,054
At 31 December 2018	-	26,866	26,866

IBM Finans Norge AS

Appendix

For the Year Ended 31 December 2019

Appendix: Abbreviations

Abbreviations used in this publication are set out below:

AC	Amortised cost
EAD	Exposure at default
ECL	Expected credit loss
FVOCI	(Financial assets/liabilities at) fair value through other comprehensive income
FVTPL	(Financial assets/liabilities at) fair value through profit or loss
GRMG	Global Risk Management Group
IASB	International Accounting Standards Board
IDC	Initial direct costs
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
LGD	Loss given default
NIBOR	Norwegian Interbank Offered Rate
PD	Probability of default
ROU	Right-of-use
SICR	Significant increase in credit risk
SPPI	Solely Payments of Principal and Interest

Asbjørn Søgstad

d6bd0f2d-e79f-4713-b109-7e296a90f103 - 2020-03-31 12:02:39
BankID - 10d458cb-c510-410a-ba4e-11d1042f3bdd - NO

Henrik Adrian Visser

1e94eb43-2b65-4682-9fa7-1bd82b84134f - 2020-03-31 12:06:59
NemID - 62ece82e-905b-4b21-a5de-e9cb3fb83975 - DK

Emil Stampe

982f9f40-bd18-496b-a68c-ae9e1d048132 - 2020-03-31 12:07:57
BankID - 2e18294c-3a73-484d-87da-d89171f1c716 - NO

Eric Eliasson Mats

f94e2870-afa4-4002-81fd-2de740d27e45 - 2020-03-31 12:13:51
BankID - 392de812-7df1-4d2c-8f10-ae6ae91b20ca - SE

Trond Erik Steine

c8ebe8ab-21f0-4e68-8b8b-f8728a124582 - 2020-03-31 13:38:52
BankID - a9f44a03-4b18-4cf0-a766-c0006830d4ac - NO

Søren Gert Christiansen

aa173f0e-89fe-4b43-a4d8-b985e36fc243 - 2020-03-31 13:41:58
NemID - 326158f9-80ab-4308-b68d-1f3039498341 - DK

authority to sign
representative
custodial

toimivaltaoikeus
nimenkirjoitusoikeus
huoltaja/edunvalvoja

ställningsfullmakt
firmateckningsrätt
förvaltare

autoritet til å signere
representant
foresatte/verge

myndighed til at underskrive
repræsentant
frihedsberøvende